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SUBJECT: WORLD BANK IN BELARUS: FUTURE ENGAGEMENT RESTS ON
CHERNOBYL PROJECT

¶1. SUMMARY: Increasing GOB impediments to the provision of foreign assistance and further resistance to outside advice call into question the future of World Bank operations in Belarus. The Bank is pinning its hopes on realization of a proposed \$50 million project in energy conservation and gas distribution in the Chernobyl affected area. The project addresses what UN agencies see as the most critical problem in the zone - poverty. The country resident representative stresses that the project is geared to helping the impoverished communities and not supporting infrastructure or the regime. In addition to conserving energy and financial resources, the project provides a health benefit by replacing wood as a heating fuel, which is a source of radiation exposure. Progress on project implementation to a great degree will determine the future scope and direction of Bank activities in Belarus. Post urges careful consideration of the project in light of the desperate situation in the Chernobyl affected area and the need to keep IBRD engaged in Belarus. END SUMMARY

¶2. In its recently completed country economic memorandum the Bank concluded that the Belarusian economy had achieved significant growth, but non-sustainable in the absence of structural reform (septel). Although the economic success is largely a consequence of high energy prices and preferential access to the booming Russian market, microeconomic reforms, particularly in the budget and energy efficiency spheres, have helped the economy capture the benefits of the external factor. In fact, the GOB has implemented many of the measures the Bank and the IMF have recommended, i.e., technical measures not requiring political approval. However, these steps have taken the economy about as far as it can go without major reforms that would fundamentally change the economic structure. And there is clearly no will on the part of the increasingly Soviet nostalgic leadership to take the country in a more market-oriented direction.

¶3. In the face of the regime's increasing hostility to Western countries and institutions, growing bureaucratic and political impediments to technical assistance, some World Bank members are questioning the appropriateness of continued engagement in Belarus. Its sister organization, the IMF, pulled its resident representative out of country a year ago, now maintaining a very small, locally staffed office to administer small technical assistance missions. The local office World Bank office argues for maintaining at least the current project level. Bank staff cites the long-term impact on the country's economic policy, in particular, keeping up the skill levels of the very

competent staff at the technical staff in the ministries and preparing for future leadership. Outside economists unanimously praise the capabilities and dedication of their Belarusian counterparts. However, in the country's self-imposed isolation these skills will dry up without the constant contact with the IFI experts, training and access to new information.

14. In the quest to stay engaged, the World Bank has been working over the past year to design a loan project which the GOB will accept and which also meets IBRD development goals (Global Public Goods). The result is the \$50 million loan Post-Chernobyl Recovery Project, focusing on energy efficiency and gas distribution. In recent conversation with DCM and pol/econ chief, the head of the World Bank office in Minsk, Vadim Voronin, stressed that the project is directed at helping local communities, not building infrastructure. He explained that the project will help alleviate the difficult financial straits that municipal budgets face in the Chernobyl zone. Given the very low fiscal revenues, local budgets can be as low as USD one per member of community. Installation of energy efficient equipment, which can cut energy use by some 50 percent, could result in significant cost savings for these villages. The gas distribution component of the project would be directed at villages, which are already connected to the network and would be used to provide street pipelines and house connections. The substitution of gas for wood - the most common heating fuel in the region - also provides a health benefit by reducing risk of radioactive exposure through burning contaminated wood.

15. The Belarusian government has approved the loan proposal, but it is still awaiting final approval by the presidential administration. (In its original design last year the project was to be multisectoral, including a component on

forestry, but the Bank found it too difficult to work with the unreformed forestry industry. The energy sector, in contrast has already made significant reforms.) If approval is secured, the project will be presented to the Board on January 27. Realizing that some member countries will object to the project, Voronin intends to explain the project to Bank President Wolfowitz in advance of the Board meeting. He claims to have already won the agreement at the vice-presidential level in the Bank.

Looking Ahead

16. Preparation of the next Country Assistance Strategy (CAS), which will take place next year, is constrained by the lack of areas where assistance is acceptable to both the GOB and the IBRD. According to Voronin, the CAS will probably concentrate on broadening the current Chernobyl proposal. In addition to continuation of energy efficiency and gas distribution, likely proposals re improving water quality in rural areas, forestry management and agriculture development. Voronin laid out the rationale behind selection of these topics. Before the Chernobyl catastrophe, the area relied on surface water - lakes and rivers - for household use. When these sources became contaminated, they switched to underground water. However, the quality of the underground water is very poor with high levels of iron (exceeding the norm by 20 times), zinc and other heavy metals. Voronin estimated that bringing the quality up to acceptable levels would cost \$15-20 million.

17. Voronin continued to explain that forests in the region are poorly managed and vulnerable to fires, which create radioactive clouds that can threaten neighboring countries. He did not envisage a major forestry plan for the region, but a focused project to improve management in the areas of low and average contamination and to develop small enterprises by privatizing forest farms (leskholkhos). If such wood is processed under IAEA approved standards for commodities, such wood could be exported. According to Voronin, only the surface is contaminated, so that log cores are safe. Development of agriculture in the zone is, not

unexpectedly, very controversial and the government's announced plans to do so have been criticized in the independent press. Voronin stressed that the Bank however, would focus on non-food agriculture, as there is no way to avoid risk from radioactive pollutants in food grown in contaminated areas, especially meat and milk.

18. Voronin noted that further development of these ideas is contingent on the GOB's level of cooperation on the first Chernobyl project. He predicted that approval of the new CAS would occur by the end of 2006, at best. In addition to these programs, the CAS would probably include continued technical assistance on the budget, taxes and WTO accession.

19. COMMENT: Pst urges Washington to seriously consider the Bank's proposed loan project, weighing the risk of cutting off Bank involvement in Belarus against the presumed benefit this project would bring to the regime. As the GOB increasingly isolates itself by losing down exchanges and forbidding officials from travel abroad, it is ever more important that international organizations, such as the World Bank, remain engaged in Belarus. The flow of expert into Belarus is one of the few means that Belarussian technical level government officials have to expand their knowledge and sharpen their skills - skills that will be essential when Belarus does eventually undertake democratic and market-oriented reforms. Furthermore, the Chernobyl project addresses the very serious problem that Belarus faces revitalizing a significant portion of its landmass and people - a problem that will continue to bedevil any future, democratically elected, government, as well.

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